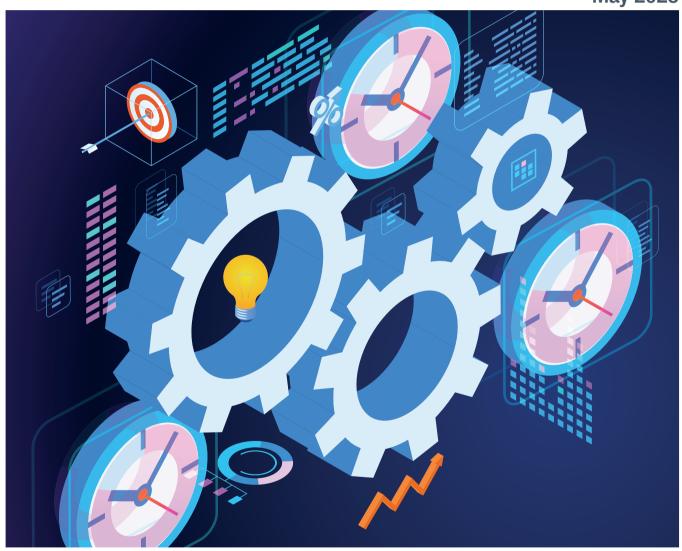# Automating collateral management

processes crucial for T+1 move

waterstechnology

SMARTSTREAM

Automating collateral management processes crucial for T+1 move

The reduction of settlement times from T+2 to T+1 for many US securities is likely to impact firms' collateral management processes when it comes into force at the end of May 2024. Jason Ang, head of collateral management at SmartStream, explores what banks most struggle with when automating collateral management functions, and the technologies SmartStream offers that help reduce reliance on spreadsheets and manual processes

How will the move to T+1 for the settlement of US securities impact firms' existing collateral management processes?

Jason Ang: Any shortening of the settlement cycle is likely to reduce credit, market and liquidity risk around unsettled trades. When we reduce the settlement cycle and credit risk, the more quickly firms can get between margin call and settlement. One of the effects of that—apart from reducing all of those risks—is that it potentially helps reduce the initial margin that clients need to post, because part of that calculation takes into account what could happen in the market between the

Jason Ang
SmartStream

time firms agree the collateral and them settling it. This is part of a move that not only the US is implementing but, once it starts, the global market will move to T+1 and eventually T+0. The impact is that you need to be ready not just for T+1 in the US but shortening of settlement cycles throughout the rest of the world too.

How well-placed are banks to adapt to the changes with regard to improving the efficiency, accuracy and timeliness of their collateral management processes?

Jason Ang: There's a spectrum in terms of where banks are. Some are well into the full automation of their collateral management processes, while others still manage aspects of their collateral management on spreadsheets. When shortening a cycle, you should reduce any kind of manual work and the time it takes to get data into and out of a system. This is where automation, straight-through processing of every step of the workflow and interactions with internal and external systems need to be looked at.

Manual processing takes time and effort, so reducing that and identifying the manually intensive parts of the process are crucial. You have to start with getting timely data into the system, getting data out of the system, and automatically connecting internally and externally—in other words, eliminating all manual uploading of data. That also encompasses the management of inventory across the firm. Finally, you need to optimize the process to help with automatic allocations and settlement, including settlement notifications. So it's a holistic view not just of the collateral management process, but of how the entire firm looks at settlement itself.

What is the greatest challenge facing firms automating collateral management processes? What do they struggle with most?

Jason Ang: I would say it's where their systems do not interact seamlessly. For example, if you have a process that is partly automated because you don't have either the technology or resources [available to fully automate it], you relegate some part of it to being a manual process. Interestingly, different firms have different pieces they can automate and some pieces that are manually intensive. For SmartStream, it's about ensuring that we're able to provide and work with technology to help support each firm's idiosyncratic requirements.

What are the functions of a collateral management system or framework that need to be present for it to be fully fit for purpose?

Jason Ang: It's about automating the entire process around trade-related data—everything from the agreement, booking, substitutions and settlement notifications, and developing an efficient fails management process so you don't have emails going back and forth—and then having a system that is easily and inexpensively upgradable. You don't know what the next thing in the market is going to be, so you want to have the technology that can be kept up to date with any new market development. Also, anything that can shorten the upgrade cycle can help deal with potential unknowns.

What does SmartStream offer the market that ticks all the boxes you've discussed?

Jason Ang: SmartStream offers connectivity to firms' internal systems via application programming interfaces (APIs) that allow programmatic interactability with the system. That way, when banks want to send and receive information, they can get it on a real-time notification basis. The important thing about these APIs is that they are backward compatible, so firms don't need to change any of their connectivity points when they choose to upgrade.

We also offer connectivity and automation through utilities such as Acadia, where there's automation around the margin call process between firms, including the substitutions process, which also impacts settlements. SmartStream also supports interactability between our reconciliations and cash and collateral systems as a means of speeding up the settlements and failure management processes. When it comes to managing exceptions, a lot of time is spent investigating those exceptions, so if you can automate that interactability, you can create a lot of gains. **wt**